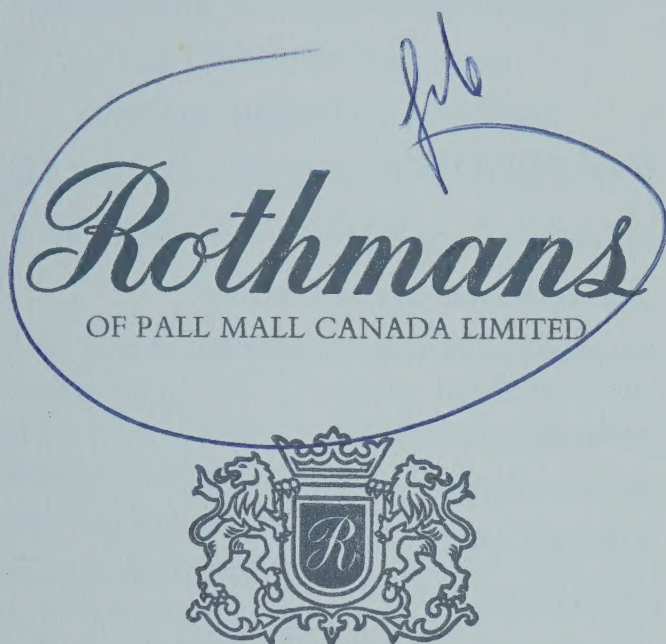




ANNUAL MEETING
AND SPECIAL GENERAL MEETING
OF THE SHAREHOLDERS
TORONTO, ONTARIO, OCTOBER 5, 1967

REPORT OF THE PROCEEDINGS AND
THE ADDRESS OF THE PRESIDENT

DIRECTORS

JOEL WALKDON ALDRED

CHARLES FOWLER WILLIAMS BURNS

MAJOR GENERAL SIR FRANCIS DE GUINGAND,
K.B.E., C.B., D.S.O.

JOHN HERBERT DEVLIN

SHIRLEY GREENSHIELDS DIXON, O.B.E., Q.C.

HAROLD SCANLON FOLEY

CHARLES ALBERT MASSEY

THE RIGHT HONOURABLE
LOUIS STEPHEN ST-LAURENT, Q.C., LL.D., P.C.

JOHN ELVIN SHAFFNER

WILMAT TENNYSON

OFFICERS

Chairman of the Board

THE RIGHT HONOURABLE
LOUIS STEPHEN ST-LAURENT, Q.C., LL.D., P.C.

President

JOHN HERBERT DEVLIN

Vice President Marketing

WILMAT TENNYSON

Treasurer

PAUL JACOBUS ERASMUS

Secretary

ROBERT HOWIE HAWKES

SUMMARY OF THE PROCEEDINGS
OF THE ANNUAL AND
SPECIAL GENERAL MEETING
OF SHAREHOLDERS OF ROTHMANS
OF PALL MALL CANADA LIMITED

The Annual and Special General Meeting of Shareholders of the Company was held at the Royal York Hotel in Toronto on Thursday, October 5, 1967.

The Right Honourable Louis S. St-Laurent, Q.C., presided over the meeting. The minutes of the Annual General Meeting of Shareholders held on October 4, 1966, and the Annual Report of the Directors, including the consolidated balance sheet, the consolidated statements of earnings, retained earnings and changes in working capital and auditors' report for the fiscal year ended June 30, 1967, were approved and adopted.

The Directors of the Company, whose terms of office expired at the meeting, were re-elected. Price Waterhouse & Co. were re-appointed as Auditors.

By-law No. 13 of the Company, providing for an application for supplementary letters patent to confirm the creation of 500,000 additional Common Shares was sanctioned and approved.

The President's address and the address of Sir Francis de Guingand have been printed for the benefit of those Shareholders who were unable to attend the meeting.

The co-operation of Shareholders by personally attending the meeting or by returning their proxies is appreciated by your Board of Directors.

Toronto, Ontario
October 10, 1967

PRESIDENT'S ADDRESS

J. H. DEVLIN

Thank you, Mr. Chairman. Ladies and gentlemen, I would like to add my own personal welcome to that of the Chairman and thank you all for attending this meeting today.

I would also like to welcome our new director Mr. Charles Burns, to his first annual meeting. Mr. Burns has been a great supporter of our Company, and I think he has only missed one of our annual meetings since we became public, but this is his first annual meeting in his new capacity.

Mr. Dixon, our director from Montreal, has asked me to send his regrets that he could not be with us this morning.

I would like to say a special word of welcome to Major General Sir Francis de Guingand, who just arrived from England on Tuesday. Sir Francis is the International Director of our Rothmans World Group of Companies, and in May of this year was also appointed Deputy Chairman of Carreras, our associate company in England. I hear that Sir Francis has been working about 36 hours a day at this new task in England, but he is still a tough guy! He flew the Atlantic on Tuesday, and on Wednesday did most of the major buildings at Expo, and we are delighted to have him with us in spite of his busy schedule in England. So, to you, Sir Francis, a very warm welcome.

While Canada celebrates its one hundredth birthday, Rothmans in Canada celebrates its tenth birthday; since it was exactly ten years ago on October 2nd that the first Rothmans cigarettes were produced in the Toronto factory. Today, 23 of the original nucleus that started that plant are still with the Company.

While Rothmans' history in Canada is a short one, your Company holds a place amongst Canada's 100 largest investor-owned manufacturing and utility companies. In 1966 the Company

ranked 40th in sales, 74th in assets, and 71st in net profit.

In the annual report you will have noticed that your Company again established new records for sales and earnings, with a 9.7 percent gain in sales, and a gain of 19 percent in net earnings. In spite of these buoyant figures, the Company faced many problems during the year, not the least of which was an all-time record tobacco price, which jumped to 75 cents per pound at auction, from 67 cents in the previous year, and 53 cents in 1963. Other raw material costs and freight costs were also on the rise, and the profitability of luxury length cigarettes was slashed when competition, in the spring of this year, began selling these new longer and more expensive cigarettes at regular price. Fortunately, the cigarette price increases during the year offset these rising costs, and the increased profitability was almost entirely due to our increase in sales.

Sales growth continues at a faster rate than that of the total cigarette industry, and we forecast that this will continue. But growth, of course, can only be sustained by financial resources and, as shareholders are aware, the Company's bank loans have increased in direct relationship to the growth of the Company, rising from \$16 million in June 1964, to \$32 million in June of this year. We are honoured this morning to have with us Mr. Arnold Hart, Chairman of the Board of the Bank of Montreal, which at this time is celebrating its 150th anniversary in Canada. I would like to thank him and his bank for the belief they have had in our Company, particularly during our earlier struggling years. Thank you, Arnold, for taking time from your busy schedule to be with us this morning.

At our annual meeting last year I told shareholders that it was the intention of your Board of Directors to institute dividend payments, subject to tobacco prices and monetary conditions. After considerable thought and discussion, your directors have decided that it would be in the best interests of the Company and its shareholders to

postpone the payment of a dividend. While most shareholders have had capital appreciation in quoted share value, I regret making this announcement, since I am sure that many had anticipated a dividend as a result of our figures from last year.

In arriving at this decision, the Board took into account the capital required for continued growth, higher leaf tobacco costs, and general tight monetary conditions.

Over the past ten years, the sales of your Company have been increasing at an annual rate of 9.7 percent, versus a total industry growth rate of 4.1 percent. Facilities must be available for continued expansion at this rate.

Your Board authorized a capital expenditure budget of \$5 million for the current financial year. This is made up as follows:

\$3,000,000 has been budgeted for equipment and machinery for the Toronto and Quebec plants. Of this amount, \$600,000 is a carry-over from our last financial year budget for equipment not delivered during the period.

\$2,000,000 has been allocated for land and buildings as follows:

\$380,000 is required to purchase one of the leased buildings of the Toronto manufacturing complex; this acquisition will save the Company \$40,000 annually in rent. It was originally planned to buy another building in this same complex, but the owner has agreed to a reduction in rent and an extension of the option period.

The Company recently purchased 35 acres of land on the corner of Dufferin Street and Steeles Avenue at a cost of \$800,000, to ensure that suitable land would be available for future expansion, within a reasonable distance of the existing factory.

In Quebec, a new warehouse will be completed this fall at a total cost including land of

\$700,000. This building will provide storage for raw materials and finished goods, and thus allow us to expand our productive facilities within the existing building.

In summary, the Company is forecasting continued growth in the future but, because of tight monetary conditions, the Board believes that the maximum amount of this growth should be financed out of internally generated funds. I therefore ask shareholders to be patient; dividend payments will be instituted as soon as possible.

While the Company operates well within its bank facilities, credit requirements continue, and will continue, to increase. Therefore, active consideration is being given to substituting some of our bank indebtedness with long-term financing.

This morning you will be asked to vote on By-law No. 13 creating 500,000 additional Common shares. As you know, the present capital structure of the Company consists of 1,600,000 Common shares, of which 1,300,000 have been issued; 50% of these are owned by the Rothmans Group, and the other 50% by public and corporate shareholders. The remaining 300,000 Common shares are committed for the conversion of the 300,000 Class "B" Convertible Deferred shares created at the time of the purchase of Rock City Tobacco. Therefore, there are no treasury shares available, if your directors decided in the future it was necessary or advisable to issue additional common shares. For this reason, I ask you to give favourable consideration to this By-law when it is presented later in the meeting.

Turning to other matters, and in view of recent publicity, I would like to touch on the smoking-health controversy. I attended the original press conference at Columbia University on the Strickman filter, and we have worked closely with Columbia University since. We believe our Company will be one of the first, if not the first, in the world to be granted a licence, if this invention proves to be practical and advantageous. To this date, no divulgence of the material has been

made anywhere in the world. Our laboratory is presently working closely with Windsor University on the filter development which you have probably already read about in the papers. Hardly a week goes by when we do not see an inventor with a new idea, and I would like to assure shareholders that a considerable amount of management time is devoted to this very complex problem.

In the past ten years, millions of dollars have been spent in an effort to pinpoint the so-called "suspect" element or elements in tobacco smoke. To date all efforts have failed. As a result, in the United States, the present stress is on lowering tar and nicotine levels. Well, no one can prove that less tar and nicotine is an improvement but, if it is, your Company has one of the lowest tar and nicotine cigarettes in the world: the short version of our Craven "A" filter cigarette.

Your Company is working in close co-operation with Rothmans Group companies throughout the world on this problem, and no effort is being spared to aggressively pursue any potential breakthrough.

I would now like to review the overall market situation and the position held by your Company's brands in the various market segments. The total market in Canada is now in excess of 47 billion cigarettes per year.

In the past ten years, plain cigarettes have declined from 70 percent of the market to 24 percent, and while plain goes down, of course, filter is on the rise and now has 76 percent of the total market. Your Company's brands are predominantly filter cigarettes, with 91 percent of our sales being filter and only 9 percent plain.

King size cigarettes continue to increase and now hold 44 percent of total market and should be close to half of the total market in 1968. Rothmans King Size is the leader in this market segment as Canada's largest selling king size cigarette. Your Company has five other king size brands: Number

7, Sportsman Filter, Peter Stuyvesant, Craven King Size, and Craven Menthol.

Six brands compete for the "coupon or give-away" market which has now climbed to approximately 20 percent of total market, and it is interesting to see that 45 percent of the sales of these "give-away" brands are in the Province of Quebec. Your Company's Number 7 brand competes in this field with "Pick A Lucky Pack" and the brand continues to show good growth.

The menthol market is now over 6 percent of total market and eight brands compete for this market segment. Craven Menthol is Canada's fastest growing menthol brand, and your Company's St. Moritz is showing major increases.

The charcoal filter market is less than one percent of total and therefore not significant. Blended cigarettes continue to decline and now have approximately 2½ percent of total market.

Luxury length cigarettes, or cigarettes longer than king size, have approximately 3 percent of total market and rising. Your Company was first into the market with these brands, with Dunhill and St. Moritz which were on the market for nine months at a premium price before the competition entered this field. Both brands have been exceptionally well received. In the U.S.A., luxury length cigarettes are now selling at the rate of approximately 10 percent of the total market, or about as many cigarettes as are sold in total in Canada. I believe that, in fact, some people are putting the figure at higher than 10 percent, but definitely rising in the U.S.

Your Company has created many "firsts" in the cigarette industry since commencing operations in Canada ten years ago, and will continue to be in the forefront of any new development in the future.

In closing, I would like to thank shareholders for their support and belief in the future of our Company. Our growth in the past and our projections for the future are due to the competent and

enthusiastic efforts of our employees, and it gives me great pleasure to express on behalf of my colleagues our appreciation for all that has been achieved. Finally, to my co-directors, I wish to express my sincere thanks for the support and assistance given to me personally during the past year.

Thank you.

Major General Sir Francis de Guingand:

Mr. Chairman, Mr. President, Ladies and Gentlemen:

I am delighted to be back in your great country again this year. Yesterday I had the privilege of having a pretty quick run around Expo, and I must say that the thing that stuck in my mind, and I think in most people who go there, is that simply fantastic film taking you right across this wonderful country. I think it's a film that must be circulated right the way throughout the world. I can't help but believe that anyone who is beginning to feel a little disgruntled in their own particular country, like quite a lot of people are in U.K. today, when they see that film they will feel, here is a country of great opportunity, and I would have thought that you will get a great additional influx of immigrants.

Your President mentioned that I had to take on a new assignment in London as Deputy Chairman of Carreras. Well, I had just reached the age when I felt at the end of this year I would start a very peaceful evening of life—fishing, shooting and other things I like—and then suddenly this call came and now I find I am having to work harder than ever I worked in my life before. I call it cruelty to the old generals, being made to suddenly knuckle down at this ripe old age! Nevertheless, I think in the Army one certainly learned discipline and, therefore, when I was told to get on with the job, well I had to comply.

As in previous years, perhaps you would like to hear a very brief account of the Group as a whole and what has been happening in this worldwide

Rothmans Group of ours. Last year our accounts throughout the world showed that we have had a most successful year. Sales in the majority of countries have gone up, and so have profits, and things are still rising. Just recently we have made a major investment in the third greatest cigarette-tobacco company in Germany, Brinkmanns, and also that company is, I think, the largest supplier of tobaccos for pipe smoking in Germany itself. That has certainly strengthened our position in the continent of Europe, and also it has incidentally created an opportunity for co-operation with another big world group called Tabacofina, a Belgian company, and so all in all it has strengthened our overall world position. Someone made some calculations the other day and told me that, with these new investments or interests, the total number of cigarettes which we are now making and selling in any one year is reaching the terrific figure of one hundred billion cigarettes each year.

We have done particularly well in certain countries: in this country, Canada, as you can see from the financial report and accounts of our company here. We have also done extremely well in South Africa, Zambia, Malaysia, New Zealand—I am just picking out some of the highlights. And little places like Fiji, where we have suddenly burst through there—a small country but produces a very good reward, where we got somewhere near 70 percent of the business—and the pattern goes on like that.

We have also gone into Brazil through our Carreras Group, and Carreras is a sort of group within a group—it has worldwide activities. We have also acquired a big interest in a Belgian company called Weltab—and it goes on like that.

Then we also have the European Common Market, which Britain may or may not one day sooner or later join, (depending on a certain gentleman who controls the destiny of one of the great countries of Europe). Nevertheless, we are reasonably well deployed to compete in Europe. We

have a company in Holland; we now have this interest in Belgium; we are in Switzerland (which is not in the Common Market), and we are in Germany, and so I think we will be fully prepared to take advantage if Britain enters the European Common Market, but it may take quite a long time.

Of course, a major difficulty which we have experienced, and which has had repercussions on this company here, is the question of Rhodesia, where the world in general used to buy so much of the Rhodesian leaf. Rhodesian leaf is still not available to a majority of the companies in the world, and particularly our Group. It is a remarkable situation—Rhodesia. The last time I was there the employment figures were greater than the day of U.D.I. All sorts of new little industries have mushroomed up there; of course, they may not be able to withstand competition once a solution has been found. But this inability to be able to buy Rhodesian leaf has forced up tobacco prices in so many other countries in the world, and I am personally hopeful that the day will come, possibly not so far distant, when some agreement will be reached between Rhodesia and Great Britain. It is a terribly sad thing to me. Once when I left the Army I lived in Rhodesia for a year, and you cannot imagine a more friendly, delightful country, with very fine people of all races, and one hopes that in this very peaceful country, a solution will be found.

Our exports all over the world, particularly from Great Britain, are considerable. I think we are still the greatest exporter from Britain of Virginian cigarettes, and our exports are rising in many, many countries of the world. It is extraordinary how in these various countries, some of them what you call developing countries, who have no cigarette industry of their own which we export to, suddenly some company starts building a factory and operating it, and yet somehow or other you find that the gap is filled in some other direction. How long it will go on for I don't know, but the present trends are most encouraging.

Well, gentlemen, in this world of tobacco and cigarettes you never have a dull moment. I am involved in other industries and you can generally sit back and go on leave for quite long periods and you find things going along quite well when you return. But here you have to keep on your toes all the time. All sorts of imponderables crop up but, provided you are ready, you can cope with them. (You battle the whole time—just like in war—it is a battle, this game, and first you've got to produce good plans.) You've got to plan for possible events which will hit you in the future. You've certainly got to have good men running the company, and you've also got to have high morale, without which no business can ever prosper.

And I can assure you, gentlemen, from my experience in going around our various companies throughout the world, you have all these things in this company of yours in Canada, and I would like to wish your Chairman and President and members of the Board and shareholders every possible success.

Thank you.

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